CO-OPERATION AMONG RETAIL GROCERS IN PHILADELPHIA

The grocery stores of a large city vary widely in the amount of capital involved. A large one may represent an investment of from \$500,000 to \$1,000,000,[1] but \$500 will equip a store of moderate size that may yield a fair profit under favorable conditions, while a much smaller sum invested in a few groceries will supplement an income derived from a business of an entirely different sort. It is thus easy to enter the trade. Little is risked, and little is lost in case of failure. Some of the stock is not quickly perishable and may be sold to fair advantage if creditors press their demands.

As a result the business is intensely competitive. The profit on each article sold is small and it is easy for the grocer to be drawn into price cutting. Demand for many articles is hard to determine, and the end of the season will find the careless buyer with his shelves full of goods that must be carried into the next year. While many of the commodities handled are not readily perishable, fresh fruits and vegetables are an important and expensive exception. Items of direct expenditure bulk large. Clerks, order boys, and delivery boys, must be paid. Small orders must be delivered at a distance to avoid offending customers. Trading stamps and other kinds of premiums must perhaps be used to attract trade. Petty thieving and carelessness among employees are hard to detect and very difficult of correction. Credit must be extended to customers with frequent heavy losses and always a temporary employment of capital in an unprofitable manner. Trade varies so widely from hour to hour and from day to day that it is hard to keep employees working regularly. All this emphasizes the necessity of careful management. It is estimated that the grocer must make from 15 per cent to 20 per cent gross profit in handling his goods and that "any one whose expenses do not run over 17½ per cent has cause to congratulate himself." But this margin of gross profit is hard to secure.[2]

[1] Mitchell, Fletcher & Co. of Philadelphia have an authorized capitalization of \$500,000 with \$435,000 of the stock outstanding, besides bonds to the amount of \$200,000.

[2] A prominent grocer from the Pacific Coast not long ago declared: "On the Coast we handle no meats—only groceries and some liquor in sealed packages. . . . Sixty per cent of our business pays only from 10 per cent to 12 per cent, while the majority . . . need 17 per cent. In most cases there is a large

For example, in Philadelphia butter and eggs together represent about 36 per cent of the grocer's total sales and yield about 10 per cent profit. Sugar represents 7 per cent and always sells on a very narrow margin. Flour yields 16 per cent profit; ham, bacon and lard less than 5 per cent. Eggs, butter, sugar, smoked meats, lard, bread, flour, and potatoes represent about 60 per cent of the total sales and show the retailer an average gross profit of only about 9 per cent. Evidently a large profit must be derived from other lines of goods if the grocer is to survive.[3]

With this narrow margin of gain a frequent turnover of invested capital is necessary and the ideal kept in mind is an entire change of stock once each month or twelve times per year. Needless to say, this ideal is seldom attained. Careful, intelligent grocers with fair credit can and do make good profits if conditions are at all favorable, but it is evident that many who are easily drawn into the trade may lack these qualities and find the pressure of competition very keen. For the independent dealer the problem has in recent years been complicated by the appearance of the chain stores—a number of stores under a single management from a central office. The economies gained from such concentration give them a distinct advantage and their competition is one of the most serious obstacles the independent grocer must face.

The result of the conditions just cited is very apparent in Philadelphia. In 1911 there were in the city 5266 retail grocery stores, besides 257 delicatessen stores that sell some groceries, and 2004 butchers and retail meat dealers, of whom probably 10 per cent or 200 also sold groceries. A total of these three groups gives 5723 but does not include a large number of stores dealing in a variety of articles and hence hard to classify. Some of these also compete with the regular grocers. If we limit the discussion, however, to the 5723 stores named, a comparison with the population of the city, which was 1,549,008 in 1910, shows one store for every 270 people or one for every 54 families. Or if only the 5266 stores are included there is one store for every 294 people or one for every 59 families.

loss, *i.e.*, from 5 per cent to 8 per cent, hence a large profit must be added to other goods. We practically rob customers on teas and coffees to make up the balance." *Grocers' Review*, July, 1910, p. 246.

[3] These estimates have been furnished to the writer by secretary Reno Schoch of the Retail Grocers' Association of Philadelphia, who with the other officers of the association has been very courteous and helpful in giving assistance and in correcting errors in the preparation of this paper.

It is impossible to average the amount of business done by each store, but perhaps $200 per annum may be assumed as the expenditure of an average family for groceries, excluding meat and milk. For 59 families the expenditures would total $11,800. A gross profit of 20 per cent on this would be $2360 from which the grocer must meet all of his expenses.[4]

The Retail Grocers' Association of Philadelphia is an attempt to meet these conditions. It was formed in 1886 to protest against the payment of a tax of $10 per annum on all retailers of oil. The protest was successful and the organization became permanent. Its size has of course varied from year to year, but in 1915 there are 458 members—less than 8 per cent of the 6200 grocers of the city. This is no indication, however, of the strength of the association, as its membership includes the best and strongest of the retail grocers, with the exception of the chain stores.

The strength of the organization has been due to many factors. One of the most important of these has been the addition of numerous features which have bound the members closely together and encouraged the feeling of a common interest. Some of these are usual but others are a little out of the ordinary. Two building and loan associations, a horse insurance fund, a fire insurance company, a monthly magazine, a death benefit fund, and a jobbing house are all more or less directly a part of the association. Just as much as possible of the life of each member has been made to center about the organization. Standards of membership have been gradually raised until now all candidates are passed by a committee. Each member must purchase two shares of stock at $100 each in the Girard Grocery Company, pay an admission fee of $25 and $1.50 as dues for one quarter in advance, making a total of $226.50. Any one, whether a member or not, may buy from the Girard Grocery Company, which is a jobbing house separately incorporated, but only members of the association own

[4] Expenses per annum would involve at least the following:

1 clerk	$520
2 boys	250
Rent	250
Heat and light	100
Horse feed and repairs	300
Trading stamps	300
	$1720

Under the assumption made above this would leave only $640 to cover all other expenses and furnish the income of the grocer himself.

stock and receive dividends, which have been 5 per cent per annum since its organization in 1908.

The history of this association shows clearly the advantages of coöperation by retail dealers and suggests what such organizations can and can not succesfully do. The remainder of this paper will be an analysis of the leading activities of the association with the purpose of showing what ones have been successful. These coöperative movements may be discussed in three groups: (1) the unsuccessful, (2) those of doubtful or partial success, and (3) the successful.

1. *The unsuccessful.*—Several of the unsuccessful ventures require only brief mention. An employment bureau free both to clerks and to employers met with but little favor and was finally dropped. The same fate has met several plans for coöperative advertising, probably because group advertising can do little toward emphasizing the individuality of each member. One at least of the plans was devised to contrast the association stores as strongly as possible with the chain stores, but even this appeal failed to rouse the individual grocer to its advantages.

When opportunities to buy special articles at reduced rates were thrown open to members little interest was shown.[5] In 1893 special prices for coal proved unattractive. In 1904 arrangements were made for members to secure bread at a saving of one half cent per loaf, the plan being a movement in opposition to the regular bakers who were selling direct to consumers. This slight advantage and indirect benefit did not appeal to the grocers and the plan was soon abandoned.

At various times feeling against the Standard Oil Company grew very strong. Charges of discrimination and unfair price cutting were made and in 1902 this hostility took tangible form in the organization of the West Virginia Refining Company which was managed by the association. Many members subscribed for stock, and delivery of the oil was actually begun, but in a little over a year the company was dissolved. Fortunately none of the members lost anything, every dollar that was paid in being returned.

The plans just described seem to have failed because gain to the members was indirect. The collection and credit departments failed for different reasons. The first of these was started in 1886, as a method of aiding the members of the association in the

[5] These purchases were not a part of the general coöperative buying to be discussed later.

collection of bad debts. It was dropped in 1894 because of financial loss but reorganized in the same year. The last of the methods employed by this department was to furnish each member a common form of letter to be sent to each delinquent customer, warning him that unless his account was settled by a specified date the bill would be turned over to the association for collection. If this was ignored the secretary of the association notified the delinquent that unless the account was settled within a certain time, it would go to an attorney for collection and the delinquent's name be placed on a list furnished periodically to each member. Failure to settle would bring another letter from the secretary informing the delinquent that after a specified date either legal steps would be taken to enforce payment or the account would be placed in the hands of collectors who would call weekly. At the expiration of the time allowed the secretary used his judgment between the Keystone Collection Agency and a lawyer.

Just how much money may have been collected by each grocer through the first of the letters described can not be known. It is clear, however, that the members hesitated to inform even the secretary of the association of the extent of their bad debts and that only the worst of their accounts were handed over for collection. Doubtless many also were influenced by the fear of offending their customers. The department proved a failure and is no longer in existence.

For a number of years a credit department was maintained. Upon the request of any member the association would investigate the standing of any applicant for credit at a cost of 50 cents each (later reduced to 25 cents). The members used this department but little. In 1903 each member was furnished with a pass book containing a memorandum of agreement between the grocer and his customer, also a waiver of the exemption law. Little interest was shown, the trouble with all of these credit devices apparently being the fear of offense to customers.

The association has always been opposed to price cutting, viewing as a "cutter" one who "buys staple goods, pays as much as his neighbor and sells without profit to embarrass and destroy his competitor." When the chain store made its appearance with low prices and numerous special bargains it was a dangerous rival and for some years was viewed with intense hostility. During the hard times in 1893 and 1894 cutting was common among all grocers, but by 1895 criticism of the practice was directed more spe-

cifically against the chain stores. The success of these stores was chiefly due: (1) to the fact that the regular grocers were hampered by the credit system which used unproductively a large amount of capital: (2) to their selling strictly for cash making possible a quick turnover of capital and the taking advantage of cash discounts; (3) to the elimination of losses from bad bills; and (4) to their ability to purchase in large quantities from the jobber or direct from the manufacturer. As early as 1897 it was reported that some of these concerns were satisfied if they cleared $10 per week from each of their stores.

To meet this competition the association employed four methods. The first was due to the accusation that one group of the chain stores was owned and managed by a wholesale grocery house. The association favored the withdrawal of patronage from this jobber in case the rumor proved true. As the incident was of minor importance and nothing more is heard of it discussion is unimportant.

A second method was the agreement to ask manufacturers to limit the prices at which their goods could be retailed; and a number of manufacturers expressed their willingness to coöperate. But with the gradual return of prosperity the inducements to price cutting largely disappeared.

A third form of attack was employed when the association pledged its support to those manufacturers who would keep their goods out of cut price stores, including the grocery departments of department stores. In this case also support was secured from the manufacturers, but the chain stores were too numerous and too strong. In 1904 there were said to be 600 of them in the city, grouped under eight or ten ownerships, while only 750 members were claimed for the association. Under such circumstances the manufacturers could hardly be expected to refuse to sell direct to the chain store retailers, especially as the association was itself now endeavoring to buy direct from the manufacturers and opposition to the chain stores doing a similar thing was inconsistent.

The fourth and most persistent form of opposition was the endeavor to secure hostile legislation. As early as 1897 it was proposed that the state legislature be requested to limit the number of grocery stores under a single ownership to one, but no action was taken. In 1899 there was introduced in the legislature the "Fow" bill which provided for a tax on any person, firm, partnership, or corporation doing mercantile business in the commonwealth which maintains more than three separate, non-contiguous places

for the sale of goods. This tax was to be $500 for each place above three, and to be in addition to the regular tax or license. The bill passed the house by a vote of 156 to 1 but failed in the senate by a vote of 14 to 14, 21 senators failing to vote.

About this time the Woman's Sanitary League introduced into city councils an ordinance forbidding bills, circulars, advertisements, etc., to be placed in streets, footways, vestibules, yards, and porches, under penalty of a fine of $20 for each offense. The ordinance in existence prior to this time had merely forbidden their being placed on sidewalks and in streets. The association at once pledged its support to this measure. It was passed by councils, but was persistently violated pending a decision by the courts. When finally sustained in the following year the chain stores at once evaded it by publishing "newspapers" which were exempt from the provisions of the ordinance. The device is the simple one of issuing a four-page sheet, the first three pages of which contain a miscellaneous collection of "news," while the fourth is given up to a full page advertisement of the company issuing it. The chain stores still employ this form of advertising.

Opposition to the chain stores thus proved futile and their value and strength were gradually recognized. Later when both the association and the chain stores became involved in a contest with the jobbers over the right to purchase direct from the manufacturers, their common difficulty brought them together. Reference to the meeting then held is as follows: "Both branches of the trade realized that their interests in many matters were mutual and without doubt the meeting will result in great good to all concerned."

Another unsuccessful movement was directed against the giving of premiums, especially through the medium of the trading stamp. Opposition to premiums was based on the principle that whatever a grocer puts into gifts must be taken from his profits or from the quality of the goods sold. An obstacle was found in the attitude of the manufacturers, who persistently offered premiums, but this was of little importance to the grocer compared with his difficulty over trading stamps. Before 1902 little attention was given to the problem, although in 1901 an anti-stamp bill was introduced into the state legislature. In 1902 the association began to appreciate the seriousness of the evil and passed vigorous resolutions condemning the use of stamps, pledging all of its members not to use them and to employ all possible efforts to discourage their use by

others. Hostile legislation was also approved. The next year a bill was introduced into the legislature requiring any person or association issuing stamps to redeem them on demand either in goods or in cash. This bill passed but was vetoed.

The Philadelphia association discussed the use of mutual coupons to protect themselves against the stamp companies, but did not adopt them.[6] They next decided to circulate for the signature of all the grocers of the city an agreement not to handle trading stamps. Also membership in the association was made contingent on a refusal to use stamps.

In spite of these efforts the use of the stamp spread. Siegel, Cooper and Company of New York City were said to have increased their cash sales by 25 per cent through their use. The manufacturers of "Force" adopted an advertising plan involving a trading stamp attachment that the retailers alleged practically compelled them to become allies of the Green Trading Stamp. Competition between the grocers was keen, and pressure on the association grew so heavy that in April, 1904, all the stringent resolutions against stamps were rescinded and members allowed to use their own judgment. The association announced itself as still opposed to the practice and at no time since have any very large number of the members used stamps; but the fight against them was, on the whole, unsuccessful.

2. *Of doubtful or partial success.*—In its attempts to influence legislation the association has been at times successful, at other times unsuccessful. Reference has already been made to some efforts that were failures, or at least only qualified successes. In other cases more has been accomplished. Pure food bills have been aided and numerous bills unfavorable to the grocers have been killed. On the whole, the activity of the association in this line seems commendable.

It is hard to determine the influence of agitation against the introduction of grocery departments into the large department stores of the city. Their value to department stores is somewhat problematical and the absence of them in Philadelphia may be due to this rather than to the hostility of the regular grocers. In 1895 John Wanamaker withdrew from his second attempt to establish such a department and in 1902 definitely pledged himself

[6] These mutual coupons were at the time being tried in other places, *e.g.*, Erie and Scranton, Pa., and Mansfield, Ohio. Though an apparent success for a time, they were later found unsatisfactory.

not to reënter the field. Other stores have tried the plan, but at present only one such department is in operation.

In St. Louis the retail grocers accomplished their purpose by compelling wholesalers to refuse to sell to the department stores and by boycotting the offensive department stores in purchases of all lines of goods. The latter method seems not to have been tried by the Philadelphia association. The means employed were four in number: (1) promise of patronage to those manufacturers who refused to sell groceries to department stores and withdrawal of patronage from those who would not refuse; (2) securing definite pledges from manufacturers not to sell to department stores; (3) keeping manufacturers informed of cuts below regular retail prices wherever such cuts were observed; and (4) encouraging the sale of goods under the Exchange brand—the Grocers' Exchange being an allied organization.

These methods were employed with much vigor from 1897 to 1902. Numerous manufacturers promised not to sell to department stores, and the secretary was instructed to furnish members with a list of goods handled in department stores for their guidance in making purchases. That only one of these department store groceries is now in existence in the city is for the reason mentioned above not in itself conclusive proof that these efforts were successful.

From time to time the association has been engaged in contests with various manufacturers. Reference has been made to failure of the fight against the Standard Oil Company. Little if anything more was gained in its conflict with the National Biscuit Company. This company was charged by the association with the following abuses: (1) compelling the trade to pay at merchandise rates instead of tare for cardboard and excelsior used in packing crackers. (2) discriminating in favor of the chain store cutters, giving them prices and favors denied absolutely to association members; (3) insulting and ridiculing the grocer in advertising its package goods; and (4) neglecting to mark the weight of contents on package goods. [7] The fight was continued for several years with some injury to the trade of the National Biscuit Company, but no permanent advantages were gained.

The attempts of the association to control prices have met with only partial success. The attempts have been both direct and indirect—the former proving a flat failure. In 1889 a sugar

[7] *Grocers' Review,* April, 1901, p. 56.

card giving the prices at which members were to sell sugar was issued, but the results were disastrous. "Thousands of dollars were contributed towards the expense of the movement; men were employed to canvass the trade; the members volunteered to canvass their wards; the wholesalers brought their powerful influence to bear; thousands of signatures were secured and the price of sugar was fixed by the association."[8] The result (as described in 1901) was that these "card prices nearly broke up the association and to this day the evil influence of the attempt is felt." [9] In 1896 another movement for fixing sugar prices was started because of the low prices prevailing at the time. A committee was appointed which sought the aid of the American Sugar Refining Company. This company merely referred the matter to the wholesalers, and the committee reported against making any attempt to control the price. The obstacles mentioned by the committee in its report were the lack of desire on the part of the members for an agreement, the fear of "cutters," the necessity of a signed agreement and a cash deposit by every grocer in Philadelphia, the fear that wholesalers could be forced by the courts to sell to grocers who cut prices, and the possibility of retailers purchasing sugar outside the city. The committee concluded: "We are honest in our belief that it is not within the province of the organization to fix the price at which goods shall be sold and that any attempt to do so will be disastrous." [10]

Another method of attempting to control prices directly has been that of requesting members "to adhere to a certain retail selling price for a particular article listed that week,"[11] but, in general, attempts at direct price control have been abandoned.

The same can not be said of indirect control. For fifteen years or more the association has been endeavoring to persuade the manufacturers to fix the price at which their products are to be retailed and to refuse to sell them to wholesalers and retailers who will not maintain the prices so fixed. The manufacturers have in many cases been willing to do everything in their power to secure price maintenance as an encouragement to the retailer to handle their goods exclusively. At a meeting on April 12, 1897, the association unanimously agreed to request manufacturers to limit

[8] *Grocers' Review,* July, 1896, p. 138.
[9] *Ibid.,* April, 1901, p. 48.
[10] *Ibid.,* July, 1896, p. 138.
[11] *Ibid.,* Nov., 1910, p. 541.

prices at which their goods were to be retailed. A number of manufacturers promptly expressed their willingness to coöperate in this and other matters. One of the most definite expressions on the point was given at a conference of manufacturers, jobbers, and retailers in New York City on April 6 and 7, 1909. The organizations represented were The American Specialty Manufacturers' Association, The National Wholesale Grocers' Association, and the The National Retail Grocers' Association. At this meeting a resolution was passed that the specialty manufacturers should fix the price to the consumer, but that the prices should not be placed by the manufacturers on the package. Another significant resolution passed at the same time was as follows:

> Resolved that it is the sense of this conference that we are opposed to the factory-to-family plan, because it is a trade demoralizer and, in itself, is degrading;
>
> That the conferees representing various interests here acquaint their members with the danger of this movement and that they urge them to instruct their employees to do what they can to educate the public as to the fallacy of the theory that the factory-to-family plan means an economy to the family, and that the regular channel of distribution is from the retailer to the consumer, and the same is the most economical means of delivering goods to the consumer; and is in that manner a protection to the consumer.[12]

Another specific illustration of the policy of the manufacturers on this point is found in the decision in 1909 of the A. & W. Thum Company, manufacturers of "Tanglefoot" fly paper, to supply "only such of the wholesale trade as maintain the manufacturers' fixed selling price." At about the same time The N. K. Fairbank Company decided to paste on each package of its product a sticker specifying that the goods were sold only on condition that they were retailed at no less than specified prices, and declaring both wholesaler and retailer liable to The N. K. Fairbank Company to the amount of $50 for each breach of this condition, not as a penalty but as liquidated damages.[13]

3. *The successful.*—One of the most significant of the victories of the association was the one gained over the jobbers. In 1892 some of the members organized a Buyers' Exchange. In 1899 this was purchased by the association and its advantages thrown open to all members. It was capitalized in 1903. As this exchange purchased goods in such quantities as to be able to buy direct from

[12] *Grocers' Review*, May 1909, pp. 140, 142.
[13] *Ibid.*, March 1909, pp. 18 and 28.

the manufacturers, the hostility of the jobbers was aroused and they appealed to the manufacturers to take the association from its list of those who could buy direct at lowest prices. Some of the manufacturers yielded to the pressure, among them The Natural Food Company, The Toasted Corn Flake Company, Proctor and Gamble, and The Diamond Match Company. The association in reply adopted resolutions pledging its members to "place no orders for specialties or new goods unless the same be billed through the Retail Grocers' Association."

The manufacturers insisted that this action was merely a part of their general policy and that similar associations in other cities had also been taken from their lists. The association pointed out that the chain stores had not been dropped. The jobbers maintained that the normal route was from manufacturer to jobber to retailer and thence to consumer, while the retailers held that only quantity should determine the right to purchase from the manufacturer. The association felt that only through coöperative buying had the independent retailer been able to maintain himself in the face of the competition of the chain store.

The solution came quickly and was simple. The trouble had been brewing for years and had broken out in 1907. On January 13, 1908, the association sold the Buyers' Exchange to the Girard Grocery Company, a corporation separately organized to do a jobbing business. This company is ready to sell to all who wish to buy and who will conform to its rules for prompt payment. The stock of the company is sold only to members of the association and has paid 5 per cent per annum since organization besides regular annual additions to surplus. The annual report for 1911 showed $2,049,065 as the total receipts and disbursements for the year. The gross profit of the jobber is usually estimated at 10 per cent. The Girard Grocery Company buys direct from the manufacturer and handles goods at a minimum cost with no charges for delivery and with no salesmen. In 1911 the cost was 2.54 per cent. From the start the company has been a complete success.

A review of these activities is encouraging from the standpoint of the association. Its purpose is not to lower retail prices nor in any other way directly benefit the consumer. Its problem is to determine the advantages of coöperation among retailers and to devise ways and means of making that coöperation effective. Some of its plans have failed and others have succeeded.

The history of this association is suggestive of what such organizations are able to do. Some of its problems have been peculiar, but on the whole they are typical. Coöperation among retailers will succeed only within certain limits. In the first place, every movement must take into account the welfare of both the grocer and the public. The average purchaser gains, or imagines he does, from the chain store, from the department store grocery, and from the trading stamp. So long as the public maintains this attitude, the association can not hope to offer successful opposition to their existence. The same is true of any attempt to control prices. Even if there were no legal objections, it is doubtful if the grocers could carry out a policy of price control in the face of public opposition. Grocers are too numerous and only ten per cent of those in Philadelphia are members of the Retail Grocers' Association. Public opinion would be so strong as to prevent effective control under such conditions.

On the other hand, there are many things the association is unable to do because of the nature of its membership. An employment agency is not in frequent enough demand by the average grocer to make its maintenance profitable. A collection department or a credit department seems to make too heavy a demand on the grocer. He is unwilling to admit his poor judgment and reveal to the association his bad debts or to insist that his customers show evidence of their ability to settle for goods purchased.

The real success of the association has been in two lines. The first is its ability to hold together a somewhat diverse membership in a very remarkable manner. This has been done by concentrating in the association as many as possible of the interests of each member. The second has been in its coöperative buying. This in no way injures the public, but to some extent, doubtless, makes possible the offering of better bargains at retail. The manufacturer is not harmed, because he is not dealing with small irresponsible retailers but with an organization of large capital under efficient management. The only person injured has been the jobber and his opposition has been ineffective.

E. M. Patterson.

University of Pennsylvania.